SaskTel

Financial Statements of

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP

December 31, 2007

KPMG

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AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the statement of financial position of Saskatoon 2 Properties Limited Partnership as at December 31, 2007 and the statements of operations and comprehensive income, limited partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
February 6, 2008

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2007	2006 (Restated Note 2)
Operating revenues	$4,225	$4,028
Operating expenses		
Operations	1,768	1,829
Depreciation and amortization	581	557
	2,349	2,386
Income from operations	1,876	1,642
Interest expense	630	671
Net income	1,246	971
Other comprehensive income	-	-
Comprehensive income	$1,246	$971

See accompanying notes

Statement of Limited Partners' Equity

For the year ended December 31, (Thousands of dollars)	2007	2006
Balance, beginning of year (Restated Note 2)	$485	$548
Net income	1,246	971
	1,731	1,519
Partners' withdrawals	(1,000)	(1,100)
Balance, end of year	$731	$419

See accompanying notes

Statement of Financial Position

As at December 31, (Thousands of dollars)	2007	2006 (Restated Note 2)
Assets		
Current assets		
Cash	$391	$597
Short-term investments	404	-
Accounts receivable	49	34
Prepaid expenses	50	208
	894	839
Leasing costs and tenant inducements (Note 5)	972	756
Real estate assets (Note 6)	8,717	9,144
	$10,583	$10,739
Liabilities and limited partners' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 9a)	$266	$336
Current portion of long-term debt (Note 7)	371	349
	637	685
Deferred revenue	23	24
Long-term debt (Note 7)	9,192	9,611
	9,852	10,320
Limited partners' equity		
Partners' capital, 101 units issued at $1.00 per unit	-	-
Partners' equity	731	419
	731	419
	$10,583	$10,739

See accompanying notes

On behalf of the Partnership

Robert Watson

Mike Anderson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2007	2006
Operating activities		
Net income	**$1,246**	$971
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**600**	596
Net change in non-cash working capital (Note 9b)	**72**	(96)
Cash provided by operating activities	**1,918**	1,471
Investing activities		
Purchase of short-term investments	**(404)**	-
Leasing costs and tenant inducements	**(371)**	-
Cash used in investing activities	**(775)**	-
Financing activities		
Partners' withdrawals	**(1,000)**	(1,100)
Repayment of long-term debt	**(349)**	(328)
Cash used in financing activities	**(1,349)**	(1,428)
Increase (decrease) in cash	**(206)**	43
Cash, beginning of year	**597**	554
Cash, end of year	**$391**	**$597**

See accompanying notes

Notes to Financial Statements

Note 1 – Description of Business

Saskatoon 2 Properties Limited Partnership (the Partnership) is registered as a limited partnership in accordance with the *Partnership Act* of the Province of Saskatchewan. The Partnership was established for the purpose of acquiring and operating the Saskatoon Square (the rental property) located in Saskatoon, Saskatchewan. Colliers McClocklin Real Estate Corp. has been appointed as the rental property manager. The rental property is registered in the name of the Saskatoon 2 Management Ltd., general partner, who holds its interest in the rental property as the bare trustee for the Partnership.

The financial statements include only the assets, liabilities, capital, revenue and expenses of the Partnership and do not include any other assets, liabilities, revenues or expenses of the Partners.

Note 2 – Change in accounting policies

Effective January 1, 2007, the Partnership adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these financial statements.

Effective January 1, 2007, the Partnership adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861), hedges (CICA Handbook Section 3865) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada.

Upon adoption of these new standards, the Partnership designated its cash and short term investments as held-for-trading which are measured at fair value. Unrealized changes in the fair value of these financial instruments are included in net income. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost using the effective interest method.

The costs of issuing long-term debt had been deferred and amortized in equal annual amounts. The new recommendations require the use of the effective interest method to recognize the issuing costs whereby the amount recognized varies over the term of the debt and provides a constant return based on the principal outstanding. These amounts have been reclassified as part of the carrying value of the long-term debt.

Notes to Financial Statements

Note 2 – Change in accounting policies, continued

As at January 1, 2007, the Partnership adjusted the unamortized deferred financing costs to what the balance would have been had the effective interest method been used since the issuance of the debt. The impact was an increase in the unamortized deferred financing costs balance and an increase in partners' equity of $66,008.

Total adjustments to January 1, 2007 balances are as follows:

Increase (decrease)	
Deferred financing costs	$66,830
Long-term debt	(132,838)
Partners' equity	66,008

Derivatives may be embedded in other host instruments. Under the new standards embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net earnings. The Partnership selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007, and December 31, 2006, the Partnership does not have any outstanding contracts or financial instruments with embedded derivatives.

The Partnership had no "other comprehensive income or loss" transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

Note 3 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Cash

Cash consists of balances with financial institutions, which have an initial term to maturity of three months or less.

Short-term investments

Short-term investments consist of investments in Guaranteed Investments Certificates. Short-term investments combined with interest accrued over the term to maturity of the investment approximate fair value.

Leasing costs and tenant inducements

Tenant inducement costs are capitalized and amortized over the term of the related leases.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Real estate assets

Real estate assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Buildings	25 years
Parkade lease	17 years

Revenue recognition

The Partnership recognizes rental revenues evenly throughout the term of the lease. Interest revenue is recognized over the term to maturity of the investment.

Deferred financing costs

Deferred financing costs are amortized over the term of the debt using the effective interest method.

Income taxes

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the limited partners.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews the carrying value of the Partnership's real estate assets and if management determines that the carrying value cannot be recovered from future cash flows, the unrecoverable amount is written off against income. Periodic reviews are also done of the estimated useful lives of the real estate assets to determine an adequate charge against income for amortization expense. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

Capital disclosures

The new recommendations of the CICA for capital disclosures (CICA Handbook Section 1535) will become effective for the Partnership's 2008 fiscal year. The new recommendations establish standards for disclosing information about the Partnership's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Partnership's objectives, policies and processes for managing capital. The Partnership does not expect to be materially affected by the new recommendations.

Notes to Financial Statements

Note 4 – Accounting policy developments, continued

Financial instruments - disclosures
The new recommendations of the CICA for financial instruments – disclosures (CICA Handbook Section 3862) replace the existing disclosure recommendations of financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new recommendations will apply to the Partnership's 2008 fiscal year and will result in additional disclosures related to financial instruments, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Financial instruments - presentation
The existing recommendations of the CICA for financial instruments presentation included in financial instruments – presentation and disclosure (CICA Handbook Section 3861) are carried forward, unchanged as financial instruments - presentation (CICA Handbook Section 3863).

International Financial Reporting Standards
The Accounting Standards Board of the CICA has adopted a strategic plan that will result in Canadian generally accepted accounting principles (Canadian GAAP) converging with International Financial Reporting Standards (IFRS). It is anticipated that the transition process will be completed by 2011, at which time Canadian GAAP will be fully converged with IFRS for public accountable enterprises. Throughout the transition period, standards subject to joint-convergence projects may be adopted prior to full convergence. Standards not subject to joint convergence projects will be exposed in an omnibus manner for adoption at the time of convergence. Throughout the process there will be assessments of progress toward convergence, the first of which will be a progress review by the Accounting Standards Board, to be released by March 31, 2008. This review will confirm the implementation date for convergence. Due to the evolving nature of IFRS through convergence projects, it is difficult to assess the impact of convergence, if any, on the Partnership.

Note 5 – Leasing costs and tenant inducements

	2007	2006
	(Thousands of dollars)	
Leasing costs and tenant inducements	**$1,444**	$1,068
Less accumulated amortization	**472**	312
	$972	$756

Amortization for the year totalled $159,831 (2006 - $129,989).

Notes to Financial Statements

Note 6 – Real estate assets

	Cost	Accumulated depreciation and amortization	Net book value	
			2007	2006 (Restated Note 2)
			(Thousands of dollars)	
Buildings	**$9,091**	**$1,532**	**$7,559**	$7,923
Land	**367**	**-**	**367**	367
Parkade lease	**1,060**	**269**	**791**	854
	$10,518	**$1,801**	**$ 8,717**	$9,144

Depreciation and amortization for the year totaled $427,388 (2006 - $465,577).

Note 7 – Long-term debt

	2007	2006 (Restated Note 2)
		(Thousands of dollars)
Due to The Manufacturers Life Insurance Company, secured by way of a first mortgage on the real property, bearing interest at 6.28% amortized over 20 years; blended monthly installments of $80,078; due October, 2013	**$9,677**	$10,027
Less unamortized deferred financing costs	**114**	67
	$9,563	$9,960
Less current portion of long-term debt	**371**	349
	$9,192	$9,611

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2008	$371
2009	396
2010	420
2011	447
2012	476

Notes to Financial Statements

Note 8 – Commitments and contingencies

The Partnership is committed to an annual payment of $23,805 pursuant to an elevator maintenance contract expiring September 30, 2009. The payments are subject to annual escalation changes.

The Partnership is committed to spend approximately $294,000 towards the cost of new chiller equipment.

In the normal course of operations, the Partnership becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Partnership's financial position or results of operations.

Note 9 – Additional financial information

a) Balance sheet

	2007	2006
	(Thousands of dollars)	
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$221	$228
Payroll and other employee-related liabilities	11	73
Interest payable	34	35
	$266	$ 336

b) Supplementary cash flow information

	2007	2006
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	$(15)	$11
Prepaid expenses	158	(184)
Accounts payable and accrued liabilities	(70)	113
Deferred revenue	(1)	(36)
	$72	$(96)
Interest paid	$609	$632

Note 10 – Financial instruments

The Partnership's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt, which by their nature are subject to risks.

Notes to Financial Statements

Note 10 – Financial instruments, continued

Price risk – currency risk

The Partnership is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. The Partnership does not actively trade derivative financial instruments. At December 31, 2007, there were no derivative financial instruments outstanding.

Price risk – interest rate risk

The Partnership is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments and long-term debt. Interest rate risk on long-term liabilities are managed based on the refinancing needs of the Partnership.

Price risk – market risk

The Partnership is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

Credit risk

The Partnership is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the diverse customer base covering many business sectors. The Partnership evaluates customer credit risk and limits credit availability when necessary.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The fair values of the Partnership's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
(Thousands of dollars)				
Long-term debt	**$9,563**	**$10,678**	$9,960	$11,035

Notes to Financial Statements

Note 11 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with corporations and partnerships controlled by members of the Partnership.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding with corporations and partnerships controlled by members of the Partnership and entities under common or joint control or significant influence with the Government of Saskatchewan are as follows:

	2007	2006
		(Thousands of dollars)
Operating revenues	**$1,862**	$1,878
Operating expenses	**139**	142
Accounts receivable	**12**	11
Accounts payable and accrued liabilities	**21**	16

In addition, the Partnership pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes hereto.

Note 12 – Comparative figures

Certain of the 2006 figures have been restated to conform with the current year's presentation.